



**“THE THIRTEENTH IMF-JAPAN HIGH  
LEVEL TAX CONFERENCE FOR ASIAN  
COUNTRIES”** APRIL 25 - 26, 2024, TOKYO, JAPAN

**BUILDING TAX CAPACITY  
THROUGH GOVERNANCE  
AND ACCOUNTABILITY**

PRESENTATION BY: MR. ALEX KAPONE, ECONOMIST, DEPARTMENT OF TREASURY, PAPUA NEW GUINEA



# OUTLINE OF PRESENTATION

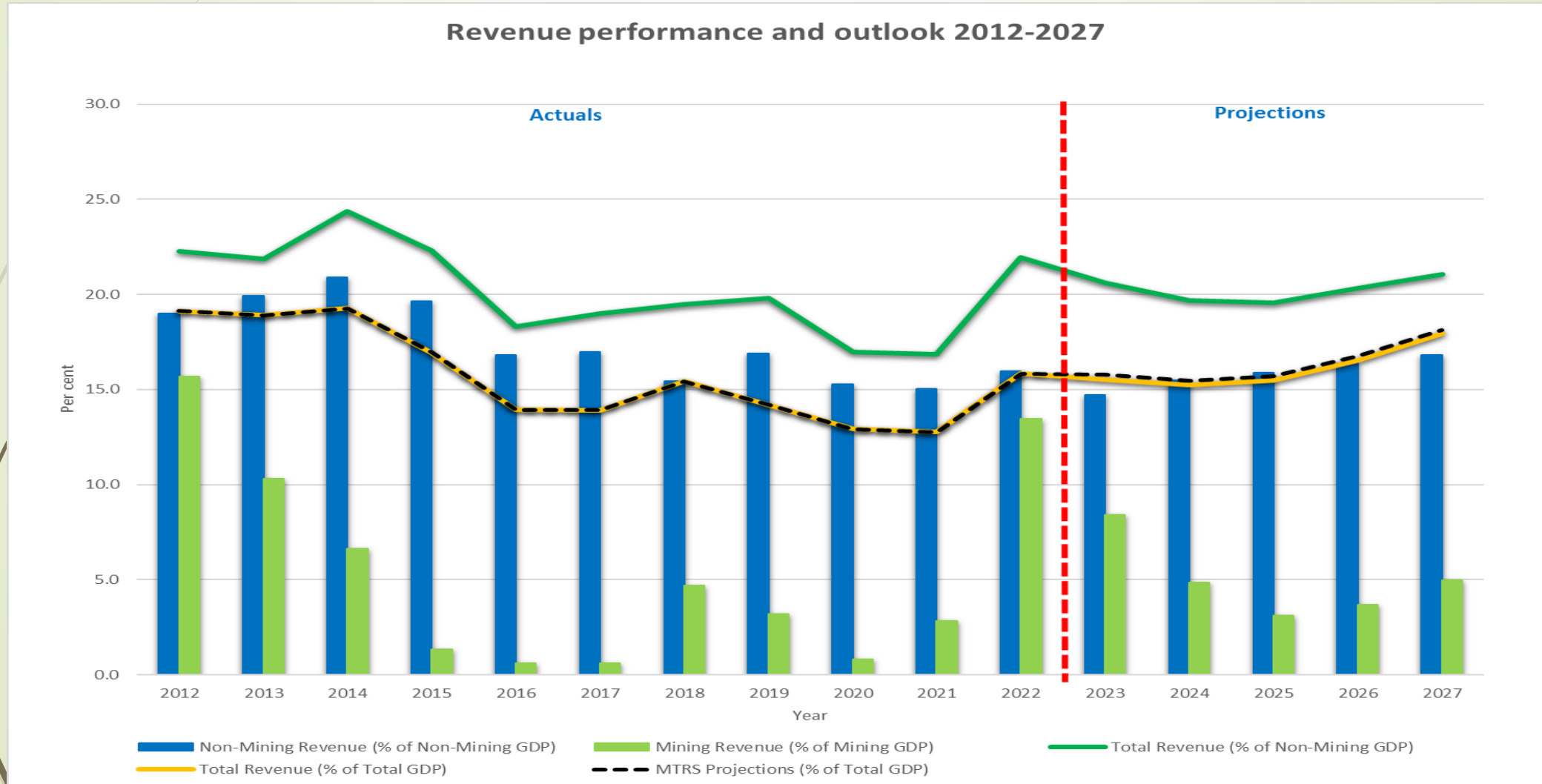
1. BACKGROUND
2. TAX CAPACITY
3. PRINCIPLES OF TAXATION
4. TAX POLICY ISSUES IN PNG
5. GOVERNMENT'S STRATEGY TO ADDRESS TAX POLICY ISSUES
6. CONCLUSION



# BACKGROUND

- The Papua New Guinea (PNG) tax system is a critical enabler to encourage economic growth and to bring about social development with the main aim to improve the living standard of its citizens.
- In an effort to mobilize revenue effectively and efficiently, the Government has developed its first Medium Term Revenue Strategy (MTRS) 2018 – 2022 and successfully implemented it despite external and domestic challenges.
- As per the Government's 13-Year Fiscal Strategy Plan, the Government's objective is to reach a surplus budget by 2027 and then settle all its debt by 2034. To achieve this objective, the Government needs to generate sufficient revenue through its domestic resource mobilisation effort to adequately fund its current expenditure needs while at the same time reducing its dependency on domestic and external borrowing and continue repaying its debt.

# TAX CAPACITY





# PRINCIPLES OF TAXATION

## 1. Equity

Tax policy should be fair and just, ensuring that individuals and businesses contribute according to their ability to pay. This principle aims to reduce inequality and distribute the tax burden fairly among taxpayers.

## 2. Efficiency

Tax policy should be designed to minimize economic distortions and inefficiencies. This means that taxes should be levied in a way that does not discourage economic growth, investment, or productivity.

## 3. Simplicity

Tax systems should be easy to understand and administer for both taxpayers and tax authorities. Complex tax laws can lead to compliance issues, tax evasion, and administrative costs.

## 4. Neutrality

Tax policy should not favor or disadvantage specific industries, companies, or individuals. Taxes should be levied in a neutral manner, without distorting market incentives or behavior.

## 5. Stability

Tax policy should provide certainty and predictability to taxpayers, enabling them to make informed decisions about their financial and business activities. Frequent changes in tax laws can create uncertainty and reduce confidence in the tax system.

# TAX POLICY ISSUES IN PNG



## 1. Informal Economy

The informal economy constitutes a significant portion of economic activity in PNG, with many businesses operating outside the formal tax system. This informal sector poses challenges for revenue collection and tax compliance efforts, necessitating strategies to formalize informal businesses while ensuring their inclusion in the tax base.

## 2. Resource Dependence

PNG's economy is heavily reliant on natural resources, particularly mining and petroleum sectors, for government revenue. However, fluctuations in commodity prices and over-reliance on extractive industries pose risks to fiscal stability and long-term sustainability. Diversifying the tax base and enhancing revenue resilience are critical policy imperatives.

## 3. Tax Evasion and Avoidance

Tax evasion and avoidance are prevalent issues in PNG, eroding the tax base and undermining revenue integrity. Weak enforcement mechanisms, inadequate capacity, and loopholes in tax laws contribute to tax leakage. Strengthening compliance measures, improving transparency, and closing loopholes are essential to combat tax evasion and avoidance effectively.

## 4. Administrative Capacity

Effective tax administration is crucial for successful tax policy implementation. However, PNG faces challenges in administrative capacity, including inadequate staffing, training, and technological infrastructure. Enhancing the capacity of tax authorities through investment in training and technology is imperative to improve revenue collection and compliance outcomes.

# GOVERNMENT'S STRATEGY TO ADDRESS TAX POLICY ISSUES



## ❖ Informal Economy

Small Business Tax Regime – 2019 National Budget

## ❖ Resource Dependence

Special Economic Zones Authority Act 2019

## ❖ Tax Evasion and Avoidance

Increase Penalties – 2020 National Budget

## ❖ Administrative Capacity

New Integrated Tax Administration System (ITAS)



## CONCLUSION

The Tax System is part of the social contract between the State and its citizens – citizens are expected to pay taxes and in exchange the Government is expected to provide public goods.





**END OF PRESENTATION**